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SUBJECT: Brazilian President Lula's Trip  
to China Focuses on Trade and Investment

Ref: Brasilia 619

**¶1.** (SBU) Summary. During President Lula's trip to China, Brazil and China reaffirmed their commitment to strengthen their relationship and finalized China Development Bank's (CDB) \$10 billion loan to Petrobras. Details of the deal indicate that China will not acquire stakes in any Brazilian oil resources but instead be repaid in cash. Another trip deliverable was access to the Chinese market for Brazilian poultry exports, a topic that has been under negotiation for over four years. Lula reiterated his call to settle bilateral trade in local currency instead of the US dollar, but discussions on this subject seem to remain more abstract than substantive. Other agreements were reached in the areas of financing, ports and satellite cooperation.

Brazilian Embassy Briefing on Lula Trip

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**¶2.** (U) Lula's May 17-20 trip to China was his second. He was accompanied by the Minister of Foreign Affairs, the Minister of Commerce, the Minister of Ports, the Vice Minister of Agriculture and 220 businessmen. Lula met with President Hu Jintao as well as Premier Wen Jiabao, Chairman of the Chinese People's Political Consultative Conference Jia Qinglin, and Vice President Xi Jinping. Lula also attended the opening ceremony of the Center for Brazilian Studies at the Chinese Academy of Social Sciences (CASS), one of Beijing's most prominent research institutes, and visited the Chinese Aerospace Technology Agency to highlight space cooperation.

Joint Communique and Joint Action Plan

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**¶3.** (U) In a joint communique, Brazil and China committed to further strengthening their partnership and stressed coordination in response to the Global Financial Crisis. They agreed to meet again in the second half of 2009 to continue their strategic dialogue at the vice-minister level. In addition, Brazil and China will develop a Joint Action Plan for 2010-2014 outlining bilateral cooperation on science, technology, space, trade and culture. Brazilian Emboffs said that the Joint Action Plan will be prepared in the upcoming weeks and launched later this year in Brasilia.

Trade in other currencies?

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¶4. (SBU) President Lula continued to publicly promote the idea of conducting bilateral trade in Reais and Yuan (versus U.S. dollars), but an economic officer at the Brazilian Embassy acknowledged that this discussion is in the very early stages and there is little possibility of its being implemented in the near-term. However, Lula proposed that the Brazilian and Chinese Ministers of Finance and the respective Central Bank Governors meet in the upcoming months to further study the issue as a next step.

Oil and Oil Financing

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¶5. (U) Two significant agreements were reached in the energy sector. One is a purely financial arrangement under which CDB will lend Petrobras \$10 billion to help finance exploration of Petrobras' deep-sea oil reserves. The loan does not give China any stake in Brazilian oil fields. Instead, Brazil intends to repay it in cash, using oil revenue -- but not oil -- as collateral. A separate MOU between the two governments committed to providing additional financing and equipment to support the CDB-Petrobras contract.

Brazilian poultry to directly enter China

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¶6. (U) Brazilian Embiffs were particularly pleased with progress on sanitary issues, especially an agreement under which Brazil can begin to export poultry products to China from Brazilian plants that have been inspected by Chinese health authorities. Brazilian Embassy officials were also positive about progress made in securing access for pork exports. China is now in the process of inspecting Brazilian pork facilities.

CDB provides additional bank loans

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¶7. CDB also agreed to provide the Brazilian Development Bank (BNDES) with an \$800 million credit line to bolster its cash reserves amid the ongoing global financial crisis. According to Brazilian Embiffs, as part of their expanded cooperation, CDB will open an office in Brazil and BNDES will open an office in China. Two further MOU's were signed between Brazil's largest financial Institute Itau BBA and CDB and between Banco do Brazil and CDB to provide additional financing for further Chinese projects in Brazil.

Potential Chinese investment in Santos Port

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¶8. The Chinese Ministry of Transport signed an MOU for cooperation in planning and building ports in Brazil. In particular, the Chinese government expressed interest in investing in the expansion project for Santos Port, Brazil's busiest container port.

Satellite Cooperation

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¶9. China and Brazil signed an MOU to provide free satellite images to three ground stations located in

South Africa, Egypt and the Canary Islands. China and Brazil have been cooperating on satellite projects for over 20 years. The China-Brazil Earth Resources Satellite (CBERS) program is a 50/50 partnership, dividing all expenses evenly from manufacture to launch. Brazilian Emboffs stressed two important developments in this cooperation -- the decision to continue and expand the partnership and the steps to internationalize the program by providing both free images and technical know-how to African nations.

Trade Imbalance and Trade Data

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¶10. Brazilian Emboffs reiterated that Brazil continues to seek diversification of its exports and an increase in Chinese investment in Brazil. They reported that the two sides reached an agreement on the methodology for calculating trade statistics. Currently Brazilian and Chinese trade data vary significantly due to different methods of calculating freight. However, Brazilian Emboffs are confident that they have found a way to standardize their data. Details of the new methodology should be available in July.

Other Notable Investments

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¶11. Brazilian Economic and Commercial Officer noted a few of the agreements reached by the visiting business delegation. Wuhan Iron and Steel signed an MOU with Brazilian iron ore producer MMX Mineracao e Metalicos SA to build a steel plant in Brazil with an annual capacity of 5 million tons. Chongqing Loncin, one of China's largest motorcycle companies, committed to building 200,000 units of motorbikes in Manaus, and Chinese automaker Chery announced plans to open a factory in Brazil.